

10.0 Virginia Airports Revolving Fund and Airport Bond Program

The Virginia Resources Authority (VRA) manages two programs designed to assist sponsors of publicly owned, public-use airports with alternate funding resources. Airport sponsors are encouraged to contact VRA, at www.vra.state.va.us or 804-644-3771, for additional information and schedules for these programs.

10.1 Virginia Airports Revolving Fund

The Virginia Airports Revolving Fund Program (ARF) provides low interest funds to assist airport sponsors implement capital projects that could not be financed with funds from the Commonwealth Airport Fund. The loans are made through VRA, which sets the terms and conditions of each loan.

The minimum loan amount for an ARF project is \$500,000, and the maximum amount is \$15 million. Loans for less than the \$500,000 minimum may be too small to justify the financing and administrative costs associated with making loans under the leveraging of the ARF. If the total estimated cost of an airport's project(s) is below the \$500,000 threshold, a sponsor should still consider submitting a loan application because funds may be available. Airports seeking loans for significantly smaller projects that clearly are not eligible for program funding administered by the Virginia Department of Aviation should consult local commercial banks or lending institutions.

10.2 Airport Bond Program

The Airport Bond Program (ABP) makes direct loans to airport sponsors for relatively large projects. The loans will be funded by the proceeds from the sale of bonds which are issued by VRA and backed by the moral obligation of the Commonwealth of Virginia. The minimum amount to be funded from the ABP is \$500,000, and the maximum amount is \$35 million. Specific information on loan amounts can be provided by VRA.

The ABP offers airport sponsors the option to issue variable rate debt, enabling them to achieve lower costs of borrowing and redeem bonds with more flexibility as their operations require.

Essentially, when the airport sponsor issues variable rate debt, the sponsor gets a lower interest rate as it is shouldering more of the interest rate risk, since the rate is reset periodically rather than being fixed throughout the life of the bond. It is becoming more common for some airport sponsors to incorporate a small percentage of variable rate debt, maybe 10 to 20 percent of the debt portfolio. They can achieve lower borrowing costs through the lower initial rate, and then they can hedge future interest rate risk, through interest rate swaps and the like, for a lower total borrowing cost than fixed rate debt if used efficiently.

Some airport projects can be readily separated into phases, such as gates, airline operating areas, public-use space, concession areas, baggage claim areas, and aircraft parking. It may be beneficial to fund a share of these projects from both ARF and ABP. Upon receipt of the project application, VRA may design a loan offer that incorporates a loan or combination of loans from one or both programs.

10.3 Project Eligibility

In general, eligible projects for ARF:

- may be related to debt refinancing of previously financed projects
- may provide the airport sponsor's matching share of projects eligible for funding through other federal and state revenue sources, including the state's Commonwealth Airport Fund and the federal Airport Improvement Program
- must be on an airport's approved airport layout plan
- must satisfy all applicable environmental requirements and permits
- must be related to an airport but may be located off airport property

Specific eligible projects include:

- facilities related to the needs or convenience of passengers, shipping companies, and airlines
- machinery and equipment
- appurtenances
- lands and rights-in-land
- aviation rights
- water rights
- rights-of-way
- roadways
- hangars

Eligible expenses include:

- administration
- engineering (planning, design, and construction)
- legal and financing fees
- construction costs
- equipment
- land
- cost of interim financing

The determination of the eligibility of a project located off of airport property is based on whether the proposed project could be located on the airport except for a lack of space on airport property or other location requirements. Examples of such projects are automobile parking lots, air cargo sorting and distribution facilities, and

multimodal terminal facilities that provide passenger or cargo links between transportation modes.

Funds may not be available for projects that are clearly speculative in nature, would refinance existing debt, or are not ready to proceed.

10.4 Application Process

A request for funding under either of these programs should be submitted to DOAV and VRA using the *Combined Virginia Airports Loan Program Application*. A sponsor can indicate a preference for a particular loan program on the form. The project description and justification on the application must substantiate how the project addresses specific needs and the readiness of the project to proceed. If a sponsor is unsure whether certain information is necessary for an application to be processed, the sponsor should contact DOAV or VRA for assistance. Both DOAV and VRA will work closely with airport sponsors to insure that applications are complete.

Applications for both programs must be submitted to DOAV using the Airport Capital Program pre-application schedule. At the same time, the application should also be sent to VRA and the airport's representative member on the Virginia Aviation Board.

If a proposed project or refinancing of existing debt will impact an airport tenant, through such actions as changing rates or charges, the airport sponsor needs to contact the tenants. When passenger facility charges (PFCs) are considered for a portion of the sponsor's share of a financial package, sponsors are required by federal regulations to notify and consult with airline tenants about the application to impose PFCs for certain capital improvements. Airport sponsors are expected to use discretion in communicating with airport tenants when planning and preparing loan applications for projects to support capital improvement plans.

10.5 Evaluation and Selection Process

DOAV will examine each loan application for completeness, eligibility, and consistency with the airport's planned development and notify the airport sponsor if an apparent problem exists. The notification allows the sponsor to adjust, correct, or withdraw the application. At the same time DOAV is reviewing an application, VRA is reviewing the application and will contact the airport sponsor if a problem is found or additional information is needed.

For reference later in the decision process, DOAV applies the VRA project ranking system to individual projects. The VRA project ranking system focuses on the loan amount, airport role, and project type. Table 4 provides the values used to score each project for ranking.

Table 4
VRA Project Ranking System

Loan Amount	Value	Airport Role	Value	Project Type	Value
≤ \$500,000	1	air carrier	5	air side	1
\$500,001-\$1,000,000	2	reliever	4	ground side	2
> \$1,000,000	3	general aviation - regional	3		
		general aviation - community	2		
		general aviation - local service	1		

In the case of a tie in the score, the airport role is used to set the ranking as the higher roles have a greater impact on the statewide aviation system.

Example: Ranking three proposed projects

- Project A is a \$500,000 hangar construction project at an air carrier airport, which is not eligible for an Airport Capital Program grant.
- Project B is a \$500,000 hangar construction project at a community general aviation airport, which is not eligible for an Airport Capital Program grant.
- Project C is a \$10 million runway rehabilitation project at a reliever airport, which is eligible for federal and state funding.

The project ranking system would generate the following scores:

Project	Loan Amount	Airport Role	Project Type	Total
Project A	1	5	2	8
Project B	1	2	2	5
Project C	3	4	1	8

As Project A and Project C have the same number of points, the airport role is used to set the ranking between the projects. The final ranking of the projects in order of priority would be A, C, and B.

DOAV submits its recommendations to the VAB. Under the terms of the memorandum of agreement for the two programs, DOAV will only recommend loan applications that are complete and meet project eligibility. The recommendations are given to members of the VAB at least two weeks prior to a regular VAB meeting, and the recommendations are posted on the department's website for VAB member and sponsor review.

The VAB will consider applications at its regularly scheduled meetings. As the VAB considers each loan request, it will insure that each proposed project is eligible and is necessary for the overall development of the Virginia air transportation system. Loan requests approved by the VAB are forwarded to VRA.

VRA will then complete its review of the applications, conducting necessary credit checks and performing the requisite financial review. It will review the scores from the project ranking system as needed to make a decision on a project. These scores would be used most when sufficient funds are not available for all requests.

If VRA decides to accept a project, it will determine the best type of loan for the project, either a revolving loan or a direct bond loan. When this process is completed, VRA will pool the various loan requests by category and proceed to sell bonds to the investment community to raise the necessary funds that will provide the requested funds at the most attractive terms and conditions.

In the event that there are insufficient funds for all loan requests, the VRA will notify the chair of the VAB and identify the projects that have been included in the final pool of projects. At the next regularly scheduled meeting, the VAB may revise the final pool of projects as long as the timeliness of bond issuance and the availability of funding resources are not jeopardized or other such financial risks are not taken that, in the sole determination of VRA, could damage or create the risk of damage to the viability of the program. In the event that there is no timely scheduled meeting to resolve the issue of the pooled projects, VRA will provide to the chair of the VAB written notification that identifies the final pool of projects and states its intent to issue bonds, make direct loans available, or use a combination of these options.

In accordance with the provisions of *Code of Virginia* §2.2-3708, the VAB may meet by teleconference to review the final pool of projects within a period of ten working days following VRA's written notification to the VAB. By the majority vote of a quorum of VAB members participating, the VAB may concur with the pool of projects suggested by VRA, revise the pool of projects, or halt further action on the bond issue and require VRA to consult with the VAB at its next regularly scheduled meeting for approval of a revised pool of projects. If the VAB fails to meet by teleconference within the period of ten working days or otherwise fails to halt action on the bond issue, the pool of projects recommended by VRA shall become the final pool of projects approved by the VAB.

10.6 Agreement Process

The ARF and ABP Programs are administered by VRA. VRA will determine which contractual documents are appropriate for each financing scenario and provide sponsors with information on the process to execute those documents.

10.7 Project Implementation

VRA will guide the implementation of projects and the transfer of funds related to the projects. Based on DOAV's level of funding participation, DOAV may be involved in a project through its normal processes for reviewing and approving plans, conducting inspections, and providing technical assistance as needed.